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To whom it may concern

**SIC Response: Ofgem’s Call for Input: Locational Pricing Assessment**

Shetland Islands Council is the local authority for Shetland, and also a strategic partner in the [Orion Clean Energy Project](https://www.orioncleanenergy.com/), which aims to transform the islands dependency on fossil fuels towards clean, affordable energy. The Shetland region has unique natural assets to create a world-leading clean energy hub, generate affordable clean heat and power, sustain, and develop new jobs, and deliver diverse economic growth for Shetland, Scotland, and UK for decades to come.

Shetland will also be home to one of the UK’s largest onshore wind farms, with Viking Energy (443MW) due for completion in 2024. Further to this, there are three other onshore wind farms either consented or planned, namely Energy Isles (120MW), Beaw Field (70MW) and Mossy Hill (50MW). There is also vast offshore wind capacity in the region (Multi Gigawatt through ScotWind and INTOG), and a 15MW tidal array being planned. A 600MW interconnector will connect us to the GB network for the first time.

Despite this vast renewable resource, Shetland is home to some of the worst fuel poverty rates in the UK, with 31% of households living in fuel poverty and 22% living in extreme fuel poverty [1]. These figures are from 2019 and before the recent eye-watering price increases. Shetland Islands Council aims to achieve affordable, low carbon energy to enable a prosperous net zero community, clear of fuel poverty. We are therefore interested in whether this proposal can provide a necessary means for alleviating fuel poverty in the region.

We understand that the implementation of LMP could enable Shetland consumers’ access to lower electricity prices, perhaps through demand side flexibility when generation is high, and are therefore interested to hear of the potential implications this would have on the wider community as further renewable generators come online. However we are also concerned that the wider implications this might have for the overall value of generation would result in a net negative outcome.

**Call for input**

1. **The key opportunities associated with introducing more granular locational pricing in GB;**

We are interested in any opportunity to achieve lower electricity costs for households and businesses in the islands. We are soon to have a vast onshore wind resource (c. 700MW) which is 15 times our current peak electricity demand. Therefore, the vast majority will be exported through the interconnector. While it is possible that this proposal could perhaps provide more affordable electricity costs to local users, it is not completely clear that wholesale price variations would actually be passed on to consumers. It is also unclear what the loss of value overall in electricity generation would be, which could potentially reduce community benefit payments and as a result have a net negative outcome for Shetland households.

An arrangement that results in a discounted price for local consumption of local generation, but doesn’t affect the export price for the remaining vast majority of generation, would therefore be the preferred outcome as that would benefit Shetland households and businesses, without constraining the overall economics of generation. It is not clear that these proposals achieve that.

We believe that our vast renewable exporting potential must be reward islands households and businesses with affordable electricity through whatever mechanism is achievable. There is a simple natural justice in those who have to host large scale generation being compensated for that through more affordable electricity. It would also help address severe fuel poverty issues, some of the inflated costs which apply to everything in the islands and improve national solidarity and cohesion.

It needs to be analysed whether any potential benefit to local consumers in Shetland outweighs any potential losses to renewable generation, and the community benefits these bring with them.

We are also aware of potential electricity market reform, as announced by the UK Government, to decouple the price of electricity from the cost of gas, to enable electricity prices to lower to levels seen previously. This would be a welcome change and one that the LMP proposal must consider as it will take some time to be implemented.

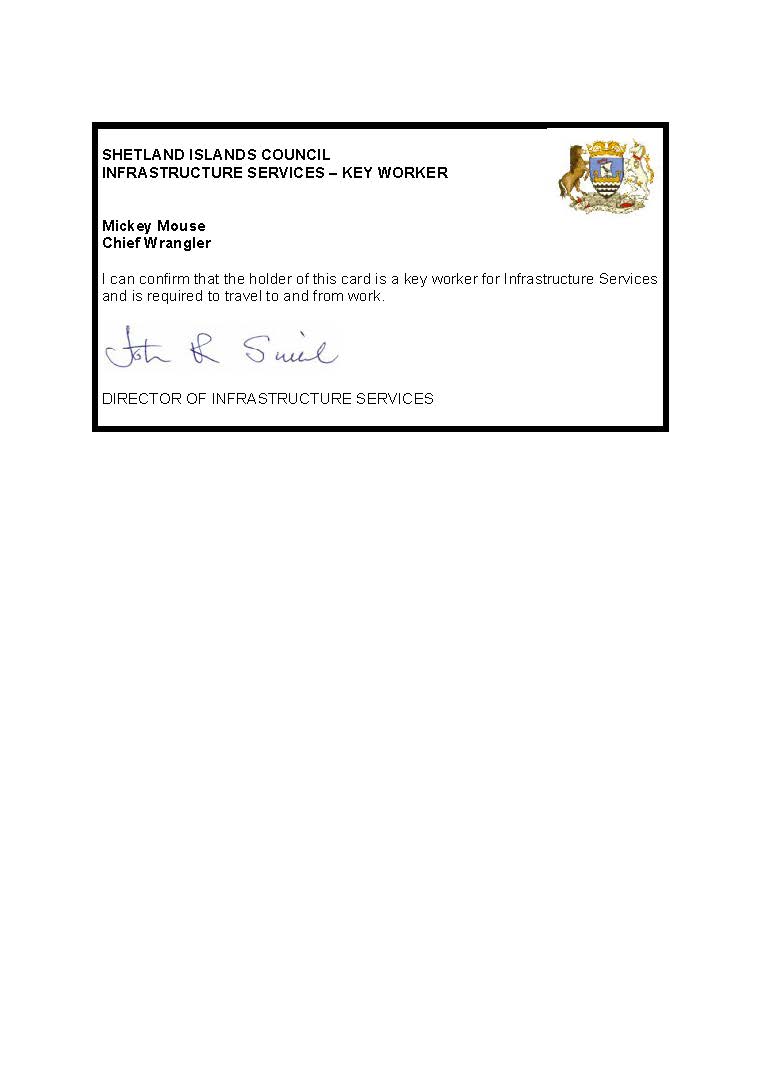
1. **The key implementation challenges, risks and mitigations**

We are aware this may have an effect on overall income for local generation, and perhaps deter new investments in the region. This must be carefully considered when making any market changes, as the North of Scotland has the best renewable resources in the UK and will be the key region for achieving UK Government net zero targets.

We conclude that further analysis on the impact this could have on the North of Scotland and the Highlands and Islands is required, but retain interest in potential for lower prices for Shetland, and regional, households and consumers; particularly in light of the vast renewable output already in the process of being developed.

We would welcome the opportunity for further discussion and look forward to hearing the outcome of the call of input.

Yours faithfully



Director of Infrastructure

Shetland Islands Council

**References:**

[1] <https://www.gov.scot/publications/scottish-house-condition-survey-local-authority-analysis-2017-2019/pages/6/>